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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

The Honorable Ernest F. Hollings
Chairman, Committee on Commerce,
Science and Transportation
United States Senate
SR-254 Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

This letter is in response to the questions you raised at the hearing on February 23, 1994 on S. 1822 relating to the income and investment data reported to the Commission by the seven regional Bell operating companies. Enclosed is the data you requested as well as a summary of the information.

Please call upon us if we can provide the Committee any additional information.

Sincerely,

Reed E. Hundt

Enclosure

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Regulated Income and Investment
Total Regional Bell Operating Companies

Set forth herein is information regarding the income and investment data reported to the FCC by the seven regional Bell operating companies (RBOCs). To give a more complete picture of the performance of the RBOCs since 1985, a range of data are being provided: construction expenditures, depreciation expense, internally generated funds, plant in service, network modernization, and service quality.

The attached tables and figures are intended to provide an industry overview and are summarized below. Should more information be desired, the Commission can supply the underlying data on a more detailed basis and by individual company. In addition, for the RBOCS as a group, the Commission can provide historical overviews of construction expenditures and total internally generated funds going back nearly 35 years.

Construction expenditures (Table 1) have been relatively constant since 1985 (the first year after divestiture) in nominal dollars and somewhat lower in dollars adjusted for changes in the price of telecommunications equipment. On a per loop basis, construction expenditures in adjusted dollars have declined by approximately a quarter. Depreciation allowances (Table 2) increased through most of the 1980's as the FCC shortened plant lives and amortized reserve deficiencies. As a result construction and depreciation have been roughly comparable since 1988 at around $14 billion per year.

Total internally generated funds (Table 3a) have fluctuated in a narrow range between approximately $20 to $22 billion since the mid-1980's. Net income was also relatively constant around $8 billion annually until 1992. Net income for 1992 and 1993 are somewhat difficult to evaluate because the RBOCs reported large non-cash expenses associated with announced labor force reduction incentives and the recognition of past accrued post-retirement benefits. Net income for 1992 rose to $10.3 billion if these non-cash expenses are included as income, but declined to approximately $6.7 billion, if they are deducted. (See Table 3b.) Although booked in 1992, these non-cash expenses actually cover several years, so the true net income lies somewhere in between these two extremes. Net income for 1993 is an estimate and our analysis not yet complete.

Gross (undepreciated) plant in service (Table 4) has grown by a third since 1985 (from $153 billion to $201 billion). Net plant (gross plant less depreciation reserves) in service grew only modestly (from $115.8 billion to $122.3 billion), and net plant per loop declined slightly. The slower growth rate of net plant was due in part to the rapid amortization of accumulated reserve deficiencies and to revisions in prescribed depreciation rates that significantly increased overall depreciation rates.

The two best measures of network modernization tracked by the FCC are the deployment of digital switching and signaling. (See Figures 1 and 2) Digital switches began to enter the network in the middle 1980s. Digital signaling began to be deployed in the late 1980s. By the end of 1992 more than half of access lines are served by a digital switch and more than two-thirds of access lines have local access to digital signaling services.

Of the wide variety of service quality statistics monitored by the FCC, unscheduled switch outages is one of the most critical measures of performance. Downtime minutes per loop expresses outage frequency and severity (duration and lines affected) in a statistic comparable between companies and across time. Table 5 summaries the downtime minutes per loop of the price cap local exchange carriers Although downtime minutes varies from quarter to quarter, there has been no discernible change in performance since the collection of this data series began.

Regulated Investment and Income
Total Bell Operating Companies

(Figures in millions; per loop calculations in dollars)

Source: FCC ARMIS 43-02 USOA Report

Table 1 Construction Expenditures

	Construction Nominal $	Tel. Equip Price Index	Construction Adjusted $	Access Loops	Construction per Loop Nominal $	Construction per Loop Adjusted $
1985	[redacted]	100.0	14,694	91.4	[redacted]	$161
1986	[redacted]	102.5	14,324	93.9	[redacted]	$153
1987	[redacted]	104.9	13,849	96.5	[redacted]	$144
1988	[redacted]	104.9	13,681	99.3	[redacted]	$138
1989	[redacted]	105.7	12,587	102.6	[redacted]	$123
1990	[redacted]	107.4	13,517	105.5	[redacted]	$128
1991	[redacted]	109.0	13,123	107.4	[redacted]	$122
1992	[redacted]	110.7	13,202	110.0	[redacted]	$120
1993	[redacted]	112.3	12,734		[redacted]	

Note: Price Index for Nonresidential Communication Equipment, Survey of Current Business, Table 7.8, and National Income and Product Accounts, 1959-1988.

Table 2 Construction versus Depreciation ... versus Total Internal Funds

	Construction Expenditures	Depreciation Expense	Dep/Const Ratio	Internally Gen Funds	Funds/Const Ratio
1985	14,694	10,044	[redacted]	19,877	[redacted]
1986	14,676	11,455	[redacted]	21,326	[redacted]
1987	14,530	13,135	[redacted]	21,414	[redacted]
1988	14,354	13,996	[redacted]	22,080	[redacted]
1989	13,309	13,859	[redacted]	21,286	[redacted]
1990	14,514	13,993	[redacted]	20,872	[redacted]
1991	14,306	13,499	[redacted]	20,160	[redacted]
1992	14,609	13,823	[redacted]	22,609	[redacted]
1993	14,300	14,000	[redacted]	21,900	[redacted]

Table 3a Sources of Internally Generated Funding

	Depreciation Expense	Net Income	Total Internally Generated Funds	Dep/Funds Ratio	Income/Funds Ratio
1985	[redacted]	7,527	19,877	[redacted]	[redacted]
1986	[redacted]	8,217	21,326	[redacted]	[redacted]
1987	[redacted]	8,435	21,414	[redacted]	[redacted]
1988	[redacted]	8,772	22,080	[redacted]	[redacted]
1989	[redacted]	8,128	21,286	[redacted]	[redacted]
1990	[redacted]	[redacted]	20,872	[redacted]	[redacted]
1991	[redacted]	[redacted]	20,160	[redacted]	[redacted]
1992	[redacted]	[redacted]	22,609	[redacted]	[redacted]
1993	[redacted]	[redacted]	21,900	[redacted]	[redacted]

Note: Depreciation plus Net Income do not sum to Total Internal Funds due to omitted sources of cash such as net deferred income tax and AFUDC.

Note: Net Income and Total Internal Funds for 1992 and 1993 include impact of non-cash expenses associated with announced labor force reduction incentives and accounting changes to recognize past accrued post-retirement benefits.

Table 4 Total Plant in Service

	Gross Plant	Depreciation Reserves	Res/Gross Ratio	Net Plant	Access Loops	Net Plant per Loop
1985	[redacted]	37,785	[redacted]	[redacted]	91.4	$1,267
1986	[redacted]	44,840	[redacted]	[redacted]	93.9	$1,259
1987	[redacted]	53,040	[redacted]	[redacted]	96.5	$1,229
1988	[redacted]	59,862	[redacted]	[redacted]	99.3	$1,204
1989	[redacted]	67,640	[redacted]	[redacted]	102.6	$1,165
1990	[redacted]	71,333	[redacted]	[redacted]	105.5	$1,138
1991	[redacted]	75,265	[redacted]	[redacted]	107.4	$1,124
1992	[redacted]	78,835	[redacted]	[redacted]	110.0	$1,111

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Table 3b

REGIONAL BELL OPERATING COMPANIES
1992 CASH FLOW PROVIDED BY OPERATING ACTIVITIES
(IN $MILLIONS)

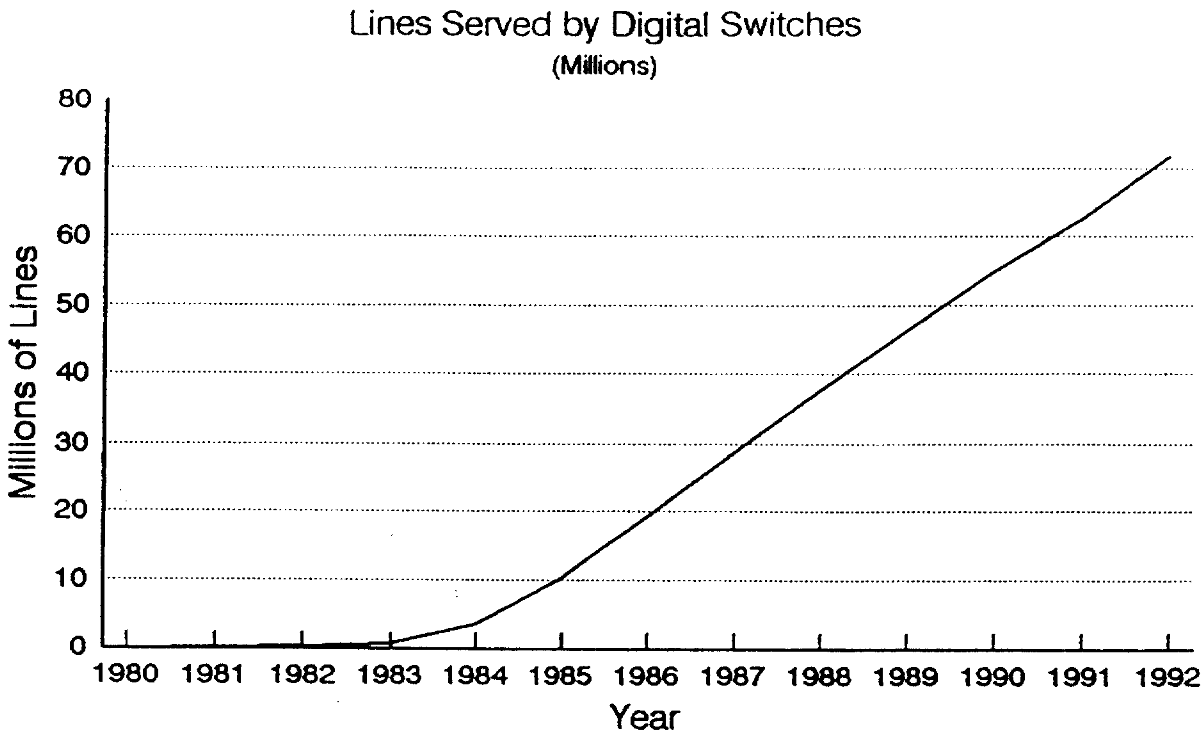
	Ameritech	Bell Atlantic	BellSouth	NYNEX	Pacific Tel.	SW Bell	US West	Total RBOCs
Net Income/Loss	(408)	1,403	1,521	1,257	1,122	1,017	835	6,747
Depreciation & Amortization	1,787	2,095	2,697	2,278	1,693	1,593	1,680	13,823
Deferred Income Taxes-Net	(129)	(177)	(60)	(127)	(286)	(101)	(1)	(881)
Unamortized ITC-Net	(65)	(80)	88	(78)	(58)	(72)	(63)	(328)
Allowance for Funds Used During Construction	(5)	(14)	(9)	(25)	(7)	(12)	(9)	(81)
Net Change in Other Assets & Deferred Charges	(103)	151	321	20	94	229	121	833
Net Change in Other Liabilities and Deferred Credits	1,792	281	200	(150)	348	94	250	2,815
Other	126	15	(341)	(48)	(138)	(45)	144	(287)
Net Cash Provided by/Used in Operating Activities	2,996	3,675	4,417	3,127	2,767	2,704	2,956	22,641

Source: 1992 ARMIS USOA Report 43-02, Table B-2, Statement of Cash Flows.

File Ref: gds/cashflow.wk4 04/11/94

Figure 1

Total Regional Bell Operating Companies and GTE



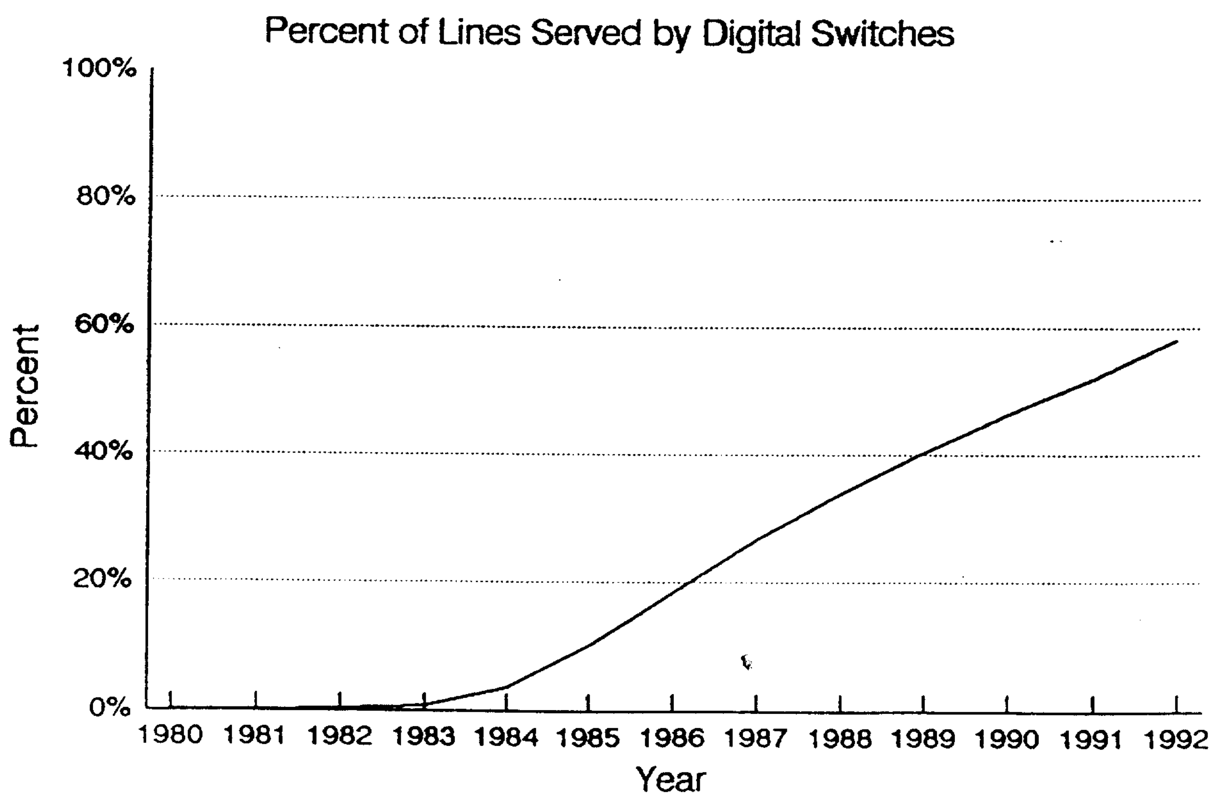


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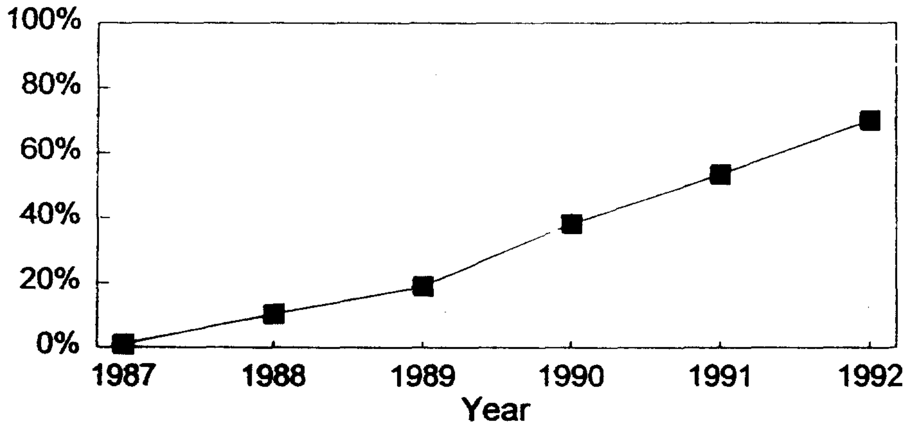
Figure 2

TOTAL RBOCS

Year	Access Lines (in thousands): Lines with Access to SS7	Access Lines (in thousands): Total Number of Lines	Percent of Total Lines with Access to SS7
1987	1,035	96,457	1%
1988	10,325	99,317	10%
1989	19,383	102,629	19%
1990	40,198	105,643	38%
1991	57,337	107,397	53%
1992	77,112	109,995	70%

Percent of Total Lines with SS7 Capability



Source: 1987-1988; CC Docket 89-624,
1989-1992; ARMIS 43-07.

File Ref: SS7.WK4 4/11/84

Table 5

UNSCHEDULED SWITCH DOWNTIME

Minutes Of Unscheduled Downtime Per Loop

Over 2 Minutes Duration on an Annualized Basis
by Quarter

Price Cap LECs 1991-1993

	1st Quarter 1991	2nd Quarter 1991	3rd Quarter 1991	4th Quarter 1991	1st Quarter 1992	2nd Quarter 1992	3rd Quarter 1992	4th Quarter 1992	1st Quarter 1993	2nd Quarter 1993	3nd Quarter 1993
Ameritech	0.2	3.6	1.5	1.8	3.0	1.6	4.0	8.4	2.8	3.2	7.1
Bell Atlantic	1.6	6.9	0.3	0.4	1.9	7.4	2.7	1.9	1.1	0.6	1.2
BellSouth	2.0	5.4	11.7	2.3	6.6	6.5	7.7	1.6	5.1	1.9	3.0
NYNEX	2.1	3.1	2.4	6.2	1.3	1.5	4.9	6.6	7.6	3.1	6.3
Pacific	9.6	2.9	1.8	5.2	1.5	2.9	3.1	1.6	0.0	6.3	7.3
Southwestern	2.0	2.3	1.4	2.1	1.3	3.5	1.1	1.8	4.0	3.9	3.6
US West	8.0	17.9	3.4	7.1	10.0	7.0	2.4	3.8	1.8	5.4	4.7
Contel	—	—	—	9.0	1.1	3.1	7.7	6.3	**	**	**
GTE	12.0	9.4	9.3	3.3	3.4	6.2	3.6	2.4	6.0	6.3	8.4
Rochester*	—	—	0.0	1.0	0.0	0.7	0.0	0.0	0.0	2.8	*
SNET	—	—	0.2	0.2	1.2	0.1	4.4	0.0	2.0	1.7	0.0
United	5.9	11.7	6.8	5.5	4.8	5.7	8.0	10.7	6.0	7.8	4.9
AVERAGE	4.3	6.4	4.1	3.4	3.5	4.5	4.1	3.8	3.5	3.0	5.0

Source:ARMIS 43-05 Table IV.A

** Contel and GTE merged in 1993.
* Rochester's 3 Q 1993 filing is incomplete.

Minutes Of Unscheduled Downtime Per Loop is the quotient of the carrier's line-minutes of unscheduled downtime and its access lines. These numbers have been annualized.